

**Milwaukee County Employees' Retirement System (ERS)**  
**Pension Budget, Audit and Compliance Committee Meeting**

**MINUTES**

**Call to Order:**

Guy Stuller, Chairman, called the Audit Committee Meeting to order at 1:00 pm, on 2-3-11, in the 2<sup>nd</sup> Floor/Commission Room (210) of the Milwaukee County Courthouse, at 910 North 9<sup>th</sup> Street, Milwaukee, WI 53233.

**Roll Call:**

**Board Members Present:**

Guy Stuller  
Keith Garland

**Others Present:**

Steve Huff  
Mark Grady  
Dale Yerkes  
Wayne Morgan of Baker Tilly  
Darlene Middleman of Baker Tilly

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**1. Topic: 2010 County Audit Overview – Baker Tilly**

A Pre-Audit Communication Letter(FAS 114) was provided to the Audit Committee members and others. Wayne Morgan of Baker Tilly described his, Darlene Middleman's and Baker Tilly's background. Darlene reviewed the pre-audit communication letter. She described Baker Tilly's responsibilities and ERS' and board members' responsibilities. She outlined the objective of the audit, to give an opinion on the 2010 financial statements of ERS. She listed a few items the audit will not cover, specifically an opinion on internal control. The audit will be sure controls are implemented but will not express an opinion on them.

Mr. Morgan stated that all Baker Tilly management comments from the 2009 audit were addressed by ERS management.

Baker Tilly asked for any changes or matters that would help with the audit. A discussion was then held regarding the proposed co-development team. This team would consist of Milwaukee County employees, outside consultants and Vitech programmers to maintain and update the V3 computer system. Wayne offered to have a Baker Tilly expert in information systems assist with the co-development team RFP free of charge.

Baker Tilly asked if a return on the investment from the pension obligation bonds was calculated separately. Dale replied that a separate rate of return was not calculated.

Baker Tilly endorsed Mr. Yerkes' idea to provide the information in the annual report that is discussed in FAS 157. FAS 157 lets users of the annual report know where the values came from that are used in the annual report.

Mr. Morgan stated that management should be excused from a portion of each meeting as a regular part of Baker Tilly's meeting with the Audit Committee. At this point, Dale Yerkes left the meeting at the request of Wayne Morgan. This was done so the Board members could discuss freely any concerns they may have regarding the fiscal operations of ERS.

The Chairman of the Audit Committee, Mr. Stuller, suggested that an appropriate review should be made of the propriety of County cross-charges. That is, expenses should be evaluated to determine whether they should be paid by the County sponsor or by ERS.

Mr. Morgan stated that the auditor does not evaluate, for example, the accuracy of individual time entries of employees. However, the auditor would bring to the attention of the Audit Committee material misstatements of financial statements due to the Plan sponsor charging ERS for items that should not be charged under law or contract if the result is material. As further explanation, Mr. Morgan stated that Baker Tilly will become involved if the County sponsor is not following contractual or legal arrangements which results in a material misstatement of the financial statements. This would create a significant problem in process. He distinguished this from, and stated that Baker Tilly would not become involved in, political battles regarding the perceived fairness of, for example, charging 40% rather than 60% of someone's time to ERS rather than the County. Instead, the auditor will accept a reasonable process for determining a percentage.

Ms. Middleman suggested that the Audit Committee may want to review the chargebacks from the County to ERS in detail. Mr. Stuller stated that the Audit Committee and Pension Board has access to the chargebacks. Mr. Morgan stated that it would possible to hire a special auditor to review the fairness of chargebacks. Mr. Stuller noted that Baker Tilly, as the auditor, works for both the Plan sponsor (Milwaukee County) and ERS. He pointed out that this complicates drawing the line between sponsor expenses and ERS expenses. Mr. Stuller acknowledged the chargeback issue is one for the Pension Board to decide.

Mr. Grady stated that the total amount at stake may not be determined by the auditor to be material and thus would not be taken into consideration in the audit.

The attendees agreed that Baker Tilly should review the report produced by the Joxel Group for the Pension Board.

Mr. Yerkes rejoined the meeting.

## 2.Topic: Buck Actuarial Report – ERS Coordination

Dale stated that the 1-31-11 deadline for providing Buck with the actuarial file was met.

**3. Topic: Artificial Insemination – Case & Issue Review**

Mark discussed a memo regarding the definition of Surviving Dependent Child. He stated that artificial insemination is an issue across the country. Social Security, other pension systems and probate attorneys have had to address this issue. However, ERS must follow Milwaukee County Ordinances. Mark stated that the Ordinance definition of a Surviving Dependent Child does not include a child born from the spouse who is artificially inseminated after the death of the husband.

The people present discussed the Angela Imgrund situation. She is getting a pension based upon the death of her husband while employed by Milwaukee County. The Audit Committee will recommend to the whole Pension Board to terminate paying Angela Imgrund and her son Zachary's pensions. The Committee will also recommend not pursuing repayment of any benefits paid to Angela and Zachary Imgrund.

**4. Topic: Investment Portfolio Assessment Recommendations – Discussion**

This report was presented to the Pension Board at the last Board meeting. The Pension Board did not recommend any action be taken with respect to the recommendation that internal fiscal staff verify investment valuations. The Board was satisfied with present controls.

However, the committee wants ERS management to prepare written responses to this assessment's other recommendations.

**5. Topic: 2011 Committee Meetings Schedule**

No change to this schedule is needed at this time.

**6. Topic: The Audit Committee adjourned at 3:30 PM**



Submitted by  
Dale A. Yerkes  
Fiscal Officer ERS